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SUBJECT: WASHINGTON SUMMIT - ITALIAN POSITION PULLED IN
DIFFERENT DIRECTIONS

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Classified By: DCM ELIZABETH DIBBLE FOR REASONS 1.4 (b) AND (d)

11. (C) Summary -- An advisor to Italian Economics and Finance Minister Tremonti foreshadowed a quite different Italian position on financial market reform than post has heard from other Finance Ministry and Bank of Italy officials (reftel). In particular, in a conversation November 7 we were told that Tremonti "has always been a Bretton Woods II guy," and continues to favor a major overhaul of the IFIs and the global financial regulatory regime. As for the position it will take at the upcoming G-20 Washington summit, Italy is "aligned with the French, talking to Britain, and at loggerheads with the Germans." Coordination between the Bank of Italy and the Finance Ministry in advising Italian political leaders is poor, according to the advisor. Washington officials may find in the Bank of Italy's President Mario Draghi a useful counterweight to Tremonti's far reaching regulatory reform ambitions. Washington may also seek further changes in Italy's position as PM Berlusconi, Draghi and Tremonti enter the discussions with an apparently divided position. End Summary.

12. (C) Francesco Galietti is Counselor to Economics and Finance Minister Giulio Tremonti. Galietti has had a long association with Tremonti, who brought him into government from the private sector earlier this year. Galietti is almost certainly closer to Tremonti than is Carlo Baldocci, with whom we spoke earlier this week (reftel). In a frank conversation with econoffs November 7, Galietti (protect) conveyed Tremonti's view of Italy's objectives at the Washington Summit on Financial Markets and the World Economy.

13. (C) Galietti indicated that Tremonti intends to give a speech at London's Chatham House early next week, enroute to Washington, urging the permanent expansion of the G8 (mentioning Brazil, India and China specifically) and calling

again for a comprehensive restructuring of international financial market regulation. Galietti said Tremonti wants the IMF to assume a new role in financial sector supervision, and the World Bank to regulate international financial flows, but added that Tremonti has not outlined details of this proposal.

¶4. (C) In the run up to the Washington summit, Italy is "aligned with the French, talking with Britain, and at loggerheads with Germany", according to Galietti. The French are pushing for broad and deep changes in financial market regulation, along lines Tremonti has previously articulated. France even favors regulation of executive compensation, which Galietti characterized as political grandstanding of no real consequence to banks' financial health. According to our contacts and press reports, Britain is urging the creation of a pan-European stability fund that the Italians seem to like, especially as they have taken a similar approach in shoring up the Italian financial sector (note: next week the GOI will announce a plan to support Italian banks further by issuing callable bonds in the government's name to raise banks' capital). Germany, says Galietti, remains overly concerned about inflation, resisting further ECB rate cuts and generally opposing any proposal that German voters might interpret as bailing out foreigners.

¶5. (C) Galietti is aware that Italian technocrats, especially in the Central Bank, favor a more cautious approach to financial market regulatory reform. A loyal lieutenant, he professes that Tremonti's way is the right way, adding that there is poor coordination between the Central Bank and the Finance Ministry in providing economic policy advice to political leaders. Worse, there is no independent economic policy element in PM Berlusconi's office, so the PM is likely being pulled in opposing directions by his key economic advisors.

¶6. (C) Comment: Galietti's readout is considerably different from that of Baldocci to us November 5. This should come as no surprise, however, as Italian policy remains in flux and the two officials come from different backgrounds. Baldocci is a career Foreign Affairs Ministry diplomat, while Galietti is a personally loyal adviser of the Minister. We believe Tremonti's predilections, as outlined by Galietti, could strongly influence Italy's position at the G-20 and, later, during Italy's presidency of the G-8. A possible counterweight to Tremonti, Central Bank President Mario Draghi, will attend the summit as a representative of the Financial Stability Forum and not of the GOI. Still, it may be to the USG's benefit to highlight and promote Draghi's expertise in conversations with the Italian delegation, so as to blunt Tremonti's more draconian reform impulses.

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